The IRS Report
The Newsletter of Successful Personal Investing

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Storm clouds and caterpillars

Putting BREXIT aside, there's a sense that storms clouds are gathering for investors. Whether these are sufficient to prompt a genuine bear market is the question.

Rising interest rates alone are not, on their own, sure to cause a bear market. But investors fear the Federal Reserve, anxious to give itself more firepower in the next crisis by starting from a higher "neutral rate" stance, may press ahead with too many interest rate rises, too quickly, that cause the US economy to slow sharply.

The longer the Fed persists with tightening, the greater the pressures throughout the global financial system, since the Fed's bond buybacks are aggravating a shortage of dollar liquidity. This has been hurting emerging economies, and though it is unlikely to force them into recession, it could cause a few large-scale corporate bankruptcies as businesses that have borrowed heavily in US dollars struggle to refinance their debts.

Meanwhile, central bankers in Europe and Japan have begun to signal that the era of ultra-low interest rates is coming to an end. Many analysts have used the addiction analogy to point up the markets' dependence on easy money. This shows the disconnect between the financial system – always craving more easy credit – and the real economy, which often gets on well even when credit is tight.

Editor's view

China's rulers were on course with a programme to clean up the financial system and reduce dependence on credit until Trump declared a trade war. A slowing economy is likely to see them resort to fiscal stimulus through increasingly ineffective infrastructure spending. But few doubt their ability to keep the show on the road.

So far, it doesn't look like donner und blitzen, but we could well be in for a couple of years of what Brian Marber memorably called "caterpillar markets".

Chris Gilchrist

Peter Shearlock

BAT looks oversold on regulatory worries

Spoiler alert: my selection this month is a tobacco company. You may be opposed on principle to investing in "sin stocks", but rather than dismissing it out of hand, I ask that the inner investor hear me out.

Consider this. The tobacco industry contributes an estimated £15bn a year net to the UK Exchequer – taking direct taxes plus pension savings on early deaths and deducting smoking-related costs to the NHS – so we are all a little bit addicted. It is also worth pointing out that the industry is busy developing less harmful products which it hopes will slowly displace the demon weed and provide a viable alternative for those that enjoy smoking.

The prompt for my interest in **British American Tobacco** is the slide in its share price over the past 18 months. Once a sure and steady stalwart of many income portfolios, BAT has seen its valuation halve since the spring of 2017. On the promised dividend for the current year, the shares now yield over 7%. The obvious question is: "Is that sustainable or do BAT shares represent a value trap?"

Factors combine to bring price down

A combination of factors has brought the shares down. In July last year, BAT completed the acquisition of its US associate, Reynolds American, in a deal that added $25bn of debt – £19bn at current exchange rates – to the balance sheet. Days later, the US regulator announced it was proposing to slash the legal limit for nicotine in cigarettes to non-addictive levels. A further announcement in March this year suggested it would "explore" such a move.

Then came another move from the US regulator to crack down on e-cigarettes, and in particular the fruit flavoured vaping products that it blamed for encouraging teen smokers. This is despite the fact that vaping products contain no tar, the principal toxin in cigarettes, but just a nicotine-laced liquid. BAT has made a big bet on what are termed "next generation products" (NGPs) since 2012 with £2.5bn of capital expenditure. It needs that bet to pay off.

British American Tobacco

Recent price:	2751p
52-week high/low:	5108p/2666p
Market cap:	£6.24bn
ICB sector:	Tobacco
EPIC CODE:	BATS

Season's greetings

We wish you all a Merry Christmas and a prosperous New Year.

The next issue of *The IRS Report* will be published on Saturday 12th January 2019.

Portfolio — Peter Shearlock's selections

Company	Selection Date	Price then P	Price now P	Gain/ loss %	Current view	EPIC code
AA PLC	05/08/17	212	94	-56	Positive	AA
AG Barr	07/04/18	662	799	21	Positive	BAG
Babcock IG	04/04/15	986	584	-41	Positive	BAB
Balfour Beatty	06/08/16	220	269	22	Positive	BBY
BHP Billiton	05/10/13	1678	1509	-10	Positive	BLT
BT Group	04/02/17	306	261	-15	Positive	BT.A
Cobham**	01/10/16	141	101	-28	Neutral	COB
DCC	06/10/18	6970	5930	-15	See page 5	DCC
Dairy Crest	04/10/14	379	456	20	Positive	DCG
De La Rue	01/08/15	503	477	-5	Positive	DLAR
Diploma	03/12/11	324	1301	302	Positive	DPLM
Dunelm Group	03/06/17	618	561	-9	Positive	DNLM
Electrocomponents	04/08/12	216	532	146	Positive	ECM
Fenner	06/04/13	397	609	53	Positive	FENR
Forterra	04/08/18	297	217	-27	Positive	FORT
Grainger	01/12/12	112	255	128	Positive	GRI
Halfords	02/02/13	342	298	-13	Positive	HFD
Hays	02/06/18	183	157	-14	Positive	HAS
Hunting	05/12/15	329	572	74	Positive	HTG
Intu Properties	06/12/14	353	191	-46	Positive	INTU
Lloyds Bank Grp	07/10/17	68	57	-16	Positive	LLOY
Marks & Spencer	03/12/16	328	306	-7	See opposite	MKS
Marstons	06/02/16	156	102	-35	Positive	MARS
Mitchell & Butlers	06/02/16	280	272	-3	Negative	MAB
Mondi	07/06/14	1092	1741	59	Positive	MNDI
Morrison (Wm)	01/02/14	245	247	1	Positive	MRW
Ocean Wilsons	07/08/10	922	1160	26	Neutral	OCN
Old Mutual	01/06/13	215	132	-39	Neutral	OML
Pets at Home	01/04/17	177	112	-37	Neutral	PETS
Reckitt Benckiser	03/03/18	6922	6577	-5	Positive	RB.
Rio Tinto	02/08/14	3439	3563	4	Positive	RIO
Saga	04/06/16	211	114	-46	Positive	SAGA
Segro	02/04/16	409	616	51	Positive	SGRO
Senior	07/11/15	230	246	7	Positive	SNR
Smurfit Kappa	02/12/17	2397	2187	-9	Positive	SKG
Snam*	02/06/12	253	339	34	Neutral	0NQP
South 32*	19/05/15	108	175	62	Neutral	ASX:S32
Spirent Comms	05/04/14	99	129	30	Positive	SPT
Standard Life AAM ***	07/02/15	526	269	-49	Positive	SLA
TP ICAP	06/08/11	358	316	-12	Positive	TCAP
Workspace	06/02/16	792	868	10	Positive	WKP

The full portfolio is published on TheIRSReport.co.uk, with only selections from the last five years within the printed issue.
**converted from base currency. **Cobham price adjusted for 2-for-5 rights issue. ***Aberdeen Asset Management adjusted to reflect the terms of the merger with Standard Life.*

To cap it all, the same regulator has most recently proposed a ban on menthol cigarettes, which make up about a third of industry sales in the US. A similar ban is due in Europe by 2022. The US announcement knocked nearly a fifth off BAT's market capitalisation, even though the cigarette companies are expected to oppose it.

Sentiment was not helped by a warning from the company in October that this year's £1bn target for sales for NGPs would be missed, by about 10%. The Japanese market, where BAT sells its "glo" tobacco heating products (THPs) – non-burning tobacco sticks that offer a more potent alternative to vaping – has disappointed. There has also been a product recall in the US.

Against the odds

All of the above sounds pretty daunting. But BAT is still in line for revenue growth this year in the "high single digits" according to chief executive Nicandro Durante. Traditional combustible products continue to make up 94% of revenues and BAT is outperforming the competition. Its volumes fell 2.2% in the first half to June compared with wider industry falls of between 3% and 4%, with its key brands – the likes of Dunhill, Lucky Strike and Rothmans – gaining 1.6% extra market share.

BAT is managing to get prices up across the board. In the first half, it pushed prices up 4% across the brand mix and further progress on pricing is expected in the second half. The consensus forecast among analysts is for earnings of 291p a share against the 284p reported last year.

That still leaves the questions surrounding debt and cash flow to be answered. The company owes its bankers £46bn. The Reynolds deal took debt to five times earnings before interest, tax and depreciation, a high level by any standards. BAT is looking to get that down to around three times by the end of 2019, returning it to the historic range of 1.5 to 2.5 times in due course.

The dividend now costs a whopping £4.3bn on the expanded share capital following the Reynolds deal, but BAT generated not far short of that on a US GAAP-accounting basis in just the first six months of the year. The payment looks safe, barring major cataclysms. The dividend is now paid in quarterly instalments, of extra interest to certain investors.

Regulation spurs evolution

The big gamble is what happens now on the regulatory front. If menthol products are banned in the US, will existing users simply move to non-menthol cigarettes? I suspect most will. What effect will the crack-down on fruit-flavoured vaping products have? Ironically, it could hit the US market leader, Juul, a San Francisco-based start-up, a lot harder than BAT.

If the industry is to have a future, it surely lies with vaping, THPs and other NGPs such as oral tobaccos, which are growing

Investment update

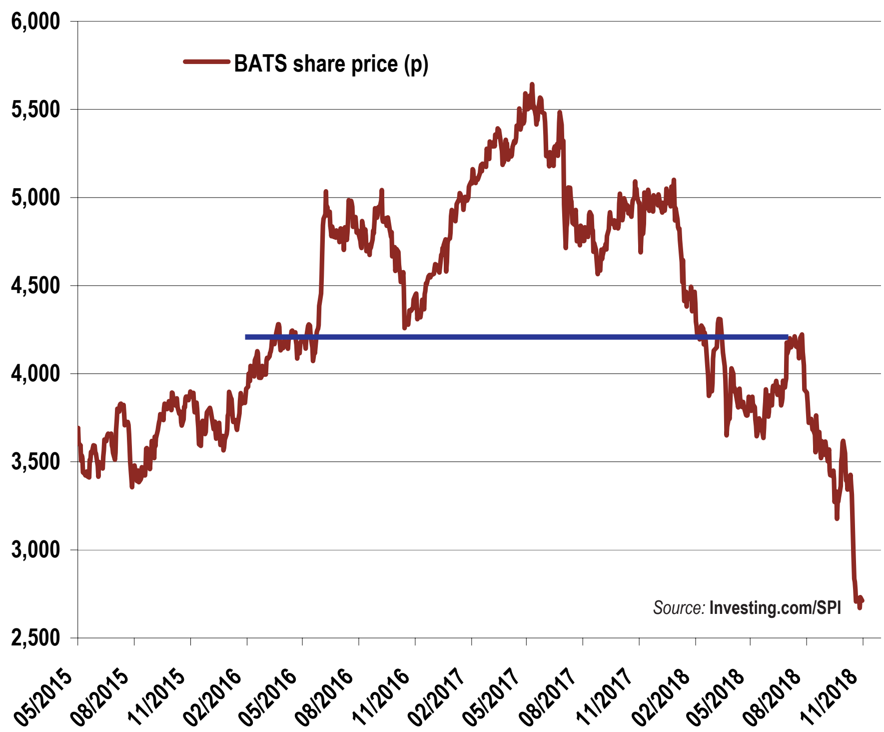
Marks and Spencer (EPIC: MKS)

Reviewed: 03/12/16 **Price then:** 328p **Recent price:** 306p
Prev. comment: 03/06/17 **Rev. by:** PS **ICB group/sector:** Retailers

The half-year figures from M&S show it battling to hold sales and margins steady through the disruptions of store closures and an attempted shift to younger consumers in clothing. Volumes in both food and clothing were down but online clothing sales grew faster than the market. There was big spending on the online channel and associated distribution which will hopefully prove its worth as Christmas approaches. Overall, profit before tax was up 7% before exceptional spending on sales down 3%. The "sales trajectory" is due to remain flat but there are big cost savings promised over time.

Attitude: Positive

British American Tobacco now yielding seven per cent



BAT shares have crashed through several support levels. The classic "head and shoulders" pattern may well have foretold of the demise. The price is now back at levels not seen since 2011.

fast and offer high margins. BAT is the leader in vaping products in a number of its markets but has yet to turn a profit in the category as a whole. Despite the growth warning on NGPs in October, volumes will still come close to doubling on the year and BAT has ambitions to increase NGP sales fivefold by 2022. The first profits should work through in 2019.

One prompt for a pick-up in the shares could be changes at the top. Durante is to step down in April, to be replaced by Jack Bowles, BAT's international COO. Relations between the City and Durante have not always been easy. His successor may have more luck keeping followers on-side.

Peter Shearlock is an experienced investor and stockmarket commentator.

David Annis

It's been tough at the top

Much has been written in the past 3 months regarding the declines seen in many if not most of the major market indices, not least the NASDAQ. Many of these benchmark indices are now at levels previously seen at the start of 2018, effectively wiping away the gains for what was shaping up to be an excellent year.

Prevailing opinion is that markets are moving into correction territory, implying that prices now more accurately reflect a truer picture of the value of a stock.

If only it were that simple. There may well be some froth that needed to dissipate, but the panic reactions have left many stocks firmly in bargain territory.

And how apt that during this Black Friday/Cyber Monday weekend you can go shopping for reduced price shares. But does the decline – so far – really represent an ideal opportunity to find some bargains?

Whilst there may be some gains to be had from a bounce, I prefer to evaluate the longer term prospects based on my formula of three main criteria. This applies especially to tech stocks, where, because of my background, much of my attention is naturally drawn.

Dominance

In the tech world, just being a market leader can get you a long

How even the biggest tech names have erased 2018 gains since August

Source: **Investing.com/SPI**

The focus on technology shares in recent months has left bargains to be had, if you were inclined towards them before. **Amazon**, **Microsoft** and **Google** (Alphabet) look like absolute bargains at their current valuations.

way. Market dominance can be hard to compete against – a strong market leader can set the agenda, get more air time and "mindshare", and, subject to anti-trust legislation, exploit their position to shut out the competition. However, it also makes them a target for all their close competitors. The level of a dominance in any technology area is a good indicator of whether the leader is likely to increase their lead, or if the followers are likely to disrupt the status quo.

Innovation

This is the main strategic battleground in the tech world. Innovation is the way that market followers overtake market leaders, and new entrants experience a meteoric rise, and laggards can disappear without trace.

Pure technical innovation is, of course, not sufficient: it has to fulfil a need that enough people are willing to spend money on. Incremental innovation – like a new iPhone – can extend existing revenue streams, but these revenue streams can always be vulnerable to a more disruptive innovation – something completely new that changes the game entirely.

In the case of iPhone, it's hard to imagine that anyone can create an alternative product with equivalent brand loyalty without Apple responding with a better solution. But there's no room for complacency; remember BlackBerry.

The really big players will often acquire rather than invent if they see something offering synergy. And they may spend big marketing dollars to catch up with an early innovator, but inspired innovation done right is hard to beat.

Alignment

There are a number of trends in the technology sector that are the main engines of market growth. Cloud, artificial intelligence and cybersecurity are the three main areas that I have my focus on right now.

Companies that have leading positions and compelling innovation in more of these areas are likely to have better long-term prospects. Occasionally, companies find themselves in the "right place at the right time" – **Nvidia**, for example, benefited from some trends that could not have been predicted, and were not driven by them, but this is the exception not the rule.

In addition to my three criteria, of course earnings reports, and how far ahead or short of expectation they are, can have as big an effect on share price in the technology sector as in any other. But I believe that for a buy-and-hold investor these can be misleading.

Tech companies will sometimes perform "unnatural acts" near quarter end – offering big discounts, or signing risky contracts to hit revenue targets, in such a way that may adversely affect subsequent quarters.

So with all this in mind, here are my thoughts on the potential bargains available right now.

Microsoft have for many years been dominant in personal computing. And they have successfully leveraged this (amongst other things) in the cloud market. In terms of total revenue from cloud, which includes software and services sold in the cloud, they have started to overhaul Amazon. But while Amazon remains the market leader for the infrastructure of the cloud, Microsoft is growing here too. I see that where Amazon were once dominant, Microsoft have by some measures, pulled alongside, and appear to have greater momentum.

Microsoft invest over $1bn a year in cybersecurity, using artificial intelligence and analytics, primarily to protect their own cloud. But they also market solutions in their own right – primarily associated with Office 365 and Windows.

They are also innovating and expanding this area of their business. and have a strong track record of leveraging their loyal customer base to achieve high market penetration very quickly, typically at prices that the incumbent competitors cannot match.

Look to the top for best bargains

Of the NASDAQ Top 5, Microsoft is the company that has declined the least in the last 3 months, which may seem to imply it is less of a bargain. Nevertheless, I think the outlook for Microsoft remains very positive.

Another in the frame is **Google**. Google is still synonymous with internet searching, a service which it has monetised very successfully, and in which it continues to dominate with an unassailable 90% market share. However, compound annual growth in this market is estimated at 6-7%. When compared to the potential of the cloud, estimated between 20-30%, it looks like small change.

The market dominance they enjoy gives Google deep pockets from which to fund innovation. Google is investing heavily in artificial intelligence, but how it intends to monetise this at scale is not yet entirely clear. This is not unusual for Google, who can often take what apparently seems to be an altruistic approach.

An example of this is in the way it has handed over control of the Kubernetes innovation to the open-source community. Kubernetes is a tool that makes it easy to control the movement of software in the cloud, and from one cloud to another. Use of Kubernetes is growing at an exponential rate, and it is rapidly becoming a de-facto standard. Whilst this is beneficial for all cloud providers equally right now, you could argue that, in the long run, it is likely to make it easier for customers to move away from the market leaders, and therefore leaves the door open for Google to make a late charge in the cloud market.

My view on Google therefore remains very positive.

One of my favourites is **Amazon**. It continues to dominate the online retail market, and to innovate retail as a whole. I used to think that its dominant position in the cloud was secure, but, whilst that sector remains strong and continues to deliver an increasingly significant percentage of Amazon's profits, there are signs that its growth is slowing. It is entirely likely that the dominance of the cloud it has enjoyed will at some stage be challenged, probably in the not too distant future. Combine that with its lack of dividends for investors, and my view on Amazon has become more tempered.

And now to a company that I have not discussed previously. Nor have I really considered investing in it, but as the biggest faller of the NASDAQ Top 5 in the last 3 months, **Facebook** does certainly appear to be worthy of a closer look.

Candidly, I have always doubted the value of advertising on Facebook. Since this is their major source of revenue, and it's my opinion that their innovation record is poor outside of their core platform, I have doubted the longevity of their business model.

This despite having been a user of the tool for over ten years. Their business collaboration tool, Workplace, does not look as if it will challenge the market leaders like Microsoft after their acquisition of LinkedIn.

And Facebook has suffered reputational damage in the last year, but of more concern is that, within the context of what is obviously a younger audience, their main users appear to be an ageing population. They have made a couple of smart acquisitions that may mitigate the age issues at least for the short term– namely WhatsApp and Instagram – but with so

Investment update — **DCC** (EPIC: DCC)

Reviewed:	06/10/18	**Price then:**	6970p	**Recent price:**	5930p
Prev. comment:	06/10/18	**Rev. by:**	PS	**ICB group/sector:**	Support Services

A falling oil price coupled with persistent selling by Fidelity, which has halved its holding in the company to just under 5% over the past year, has knocked DCC's shares in the past six weeks and overshadowed a positive set of half-year figures. These showed a 17% increase in pre-tax profit and a 12% rise in earnings per share. The interim dividend was lifted 10%.

Volumes in the LPG and retail/oil divisions were slightly reduced by the warm summer but the second half is the key period. Over the short term, sentiment is likely to be dictated by whatever move DCC makes on the acquisition front as it mobilises the proceeds of its recent placing.

Attitude: Positive

many alternatives to choose from, customers on these platforms will not put up with any obtrusive attempts on the part of Facebook to monetise them.

In conclusion, even at these prices, I cannot yet consider adding Facebook to my portfolio.

Which leaves **Apple**. Their reputation for disruptive innovation is legendary – or perhaps more accurately, it was. It has seen its market share in smartphones declining, and its personal computing business is likely to become increasingly marginalised as more and more functionality moves onto the cloud. The Apple Mac may still be a premium product, with loyal aficionados, but increasingly, laptops, PCs, and tablets will just become gateways to the cloud. For many there is no need to buy a premium product when in theory all you need is a screen, a keyboard, and a cloud account.

Apple does, of course, and probably more than all of the companies discussed here, have the ability to surprise, but at this stage I find it hard to see what their next move could be. I will therefore not be adding Apple to my portfolio at this stage.

David Annis is an IRS Report and SPI reader, and has used them as a basis for investment decisions. He is a director of a major IT company.

John Snowden

Payment plans plus at Equiniti

Perhaps generally under the radar, but there are several types of business behind the buying and selling of shares. This particular one was born out of Lloyds Banking group.

Equiniti is a multinational technology and payments specialist, providing solutions for companies and public sector organisations, as well as for millions of individual shareholders and investors.

The group is split into 5 sectors or divisions. The first is EQ Boardroom, which supplies share registration and shareholder solutions to companies, providing them with custom built platforms for their registration, dividend and shareplan administration.

They also offer a portal enabling employees to access and manage their company share plans in one place online. Also within this division is Equiniti Benefactor, which can provide estate administration and end of life support services.

Another, EQ Digital, provides solutions that help businesses incorporate mobile applications connecting customers, suppliers, employees and investors, to enhance customer management, reduce financial crime and automate consumer and commercial lending.

Government first

In April 2011, the government announced plans to change MyCSP from a government activity into the government's first mutual joint venture – a process known as spinning-out. The government then sold 40% of MyCSP to Equiniti's Paymaster business, and then transferred for nil consideration a further 25% of the newly formed company to its employees with the shares held in trust. The 35% remainder was retained by the Government, which then agreed a seven year contract – with an option for the Cabinet office to extend the contract for a further three years – after which Equiniti could sell pension administration services back to the Department.

Managing investment managers

EQ Digital can provide financial consultants with technology to manage customer complaints, and help to retain customers as well as adding new ones.

EQ Paymaster works within the UK's public and private sector schemes managing complex administration and payments covering pensions, payroll, rewards and benefits. This division provides specialist pensions savings and retirement income administration services to the insurance sector, as well as services to the Principle Civil Service Pension Scheme through MyCSP.

Equiniti Group

Recent price:	234p
52-week high/low:	330p/199p
Market cap:	£831m
ICB Sector:	Support Services
EPIC CODE:	EQN

MyCSP is the name of an ex government department which administers civil service pensions, delivering services to 1.5 million civil servants on member contributions such as salary, payments and taxation in order to pay their pensions on retirement. In fact it administrates the third largest public sector pension scheme in the UK. MyCSP is 75% owned by Equiniti and 25% by employees.

The EQ Invest division enables wealth managers or stockbrokers who wish to outsource some or all of their investment administration, providing flexibility for the client to choose the service and support they require in their custody and business processes. They offer Employee and Executive share dealing services supporting the buying and selling of their company's shares on Equiniti's share dealing platform. EQ Invest also offer international payment solutions across 180 countries.

EQ USA is the final division providing solutions for shareowners in the US. It offers expert guidance and tools to manage shareholder records, communicate with shareholders and manage and administrate shareholder plans.

Main market listing

In late 2015 Equiniti Group was admitted to the London Stock Exchange Main Market at 165p per share, floating 300m shares.

In the half year results to June 2018 they reported that revenue was up 30.4% to £254m compared to the same period to June 2017, with earnings per share up 13.2%.

In the UK, the revenue momentum experienced during the first half of the year has continued into the second half.

A varied spread of businesses generates dependable revenues from many blue chip clients, and looks likely to continue. The board forecast that for the December year end underlying EBITDA is likely to be at the top of the £118-£123 million range, on revenues of approximately £500m.

During the last twelve months they have maintained a good level of new client wins, which include new mandates from Aston Martin, Avast (a provider of software technology) and Funding Circle (financial & credit services), and 15 registration transfers.

Record business

By early November Equiniti had secured a record 44 new share plan clients, of which a half dozen are FTSE 100-listed companies with a significant employee base in both the UK and internationally. Equiniti has acted for 70% of the main market listings in 2018. On the FTSE 250 they have secured three new clients this year from their competitors.

CEO Guy Wakeley and chief financial officer John Robert Steer have continued working to develop strong client relationships both at home and in the US. They have extended the existing relationship between

Portfolio — John Snowden's selections

Company	Selection Date	Price then P	Price now P	Gain/ loss %	Stop loss Gain lock	Current view	EPIC code
Alumasc	01/09/18	123	127	3	86	Positive	ALU
Amerisur	06/12/14	39	13	-67	0	Positive	AMER
Arena Group	06/10/18	68	63	-7	48	Positive	ARE
B&M Euro. Value	14/01/17	303	350	16	325	Positive	BME
Babcock Intl	05/08/17	860	584	-32	550	See below	BAB
Bahamas Petrol	06/04/13	5.5	1.55	-72	0	Neutral	BPC
Biffa	01/06/17	215	204	-5	189	Positive	BIFF
Breedon	07/11/15	57	65	14	60	Positive	BREE
Coats Group	07/10/17	81	80	-1	65	Positive	COA
Dart Group	05/05/18	867	808	-7	690	Positive	DTG
EnQuest	06/12/14	46	23	-50	0	Neutral	ENQ
Everyman Media	06/05/17	149	185	24	170	Positive	EMAN
Forterra	01/04/17	209	217	4	209	See page 8	FORT
Halma	04/08/18	1407	1348	-4	1050	Positive	HLMA
Hansteen	10/01/15	110	95	-14	90	Neutral	HSTN
Highland Gold	05/11/16	165	148	-10	75	Positive	HGM
Hollywood Bowl	03/11/18	204	192	-6	76	Positive	BOWL
IGas Energy*	06/12/14	1112	90	-92	0	Negative	IGAS
Iomart	10/01/15	175	355	103	300	Positive	IOM
Iomart	09/01/16	256	355	39	300	Positive	IOM
Johnson Service	07/12/13	49	120	145	110	Neutral	JSG
Lok' N Store	04/03/17	415	425	2	350	Positive	LOK
M & S	02/09/17	311	306	-2	250	Positive	MKS
NWF Group	07/04/18	190	161	-15	153	Positive	NWF
Park Group	07/03/15	59	74	25	60	Neutral	PKG
Strix Group	07/07/18	168	137	-18	120	Positive	KETL
Telecom Plus	07/05/16	936	1340	43	1020	Neutral	TEP
Vitec	01/10/16	592	1243	110	899	Positive	VTC
YouGov	05/12/15	151	430	185	320	Positive	YOU

Changes to SL or opinion since last time in red. *IGAS price adjusted for share split.
Forterra and Babcock are in focus with prices touching protection levels in recent volatility.

Investment update — Babcock (EPIC:BAB)

Reviewed:	05/08/17	**Price then:**	860p	**Recent price:**	584p
Prev. comment:	07/10/17	**Rev. by:**	JS	**ICB group/sector:**	Support Services

The share price for Babcock fell through the stop-loss of 602p late in October. But this has more to it than meets the eye. On 14th October 2018 The Boatman Capital Research released a report on Babcock claiming that Babcock "has systematically misled investors by burying bad news about its performance." It further concluded "We believe it faces potentially massive exceptional costs, revenue pressure and declining margins." Boatman Capital claim to have conducted a thorough investigation in order to guide investors through the troubled waters of international markets but they are not registered as a company and the only report on their website is that of Babcock.

Babcock have responded to the report saying it contained "many false and malicious statements, which the group strongly refutes". In their half year report to end September 2018 Babcock results are in line with expectations and the outlook for the full year remains positive.

This has the hallmarks of a short scam, and so I have reset my stop-loss while it continues.

Attitude: Neutral

The decline in Equiniti may provide an entry point

The shares in Equiniti are now 30% lower than the highs earlier this year. A solid support seems to be established which may be the foundation for a recovery in the share price.

MyCSP and the Civil Service, the group's largest contract, until the end of December 2021.

In the US the first nine months of the year has reaffirmed the investment case with the strength of the franchise presenting significant opportunities to build upon the group's core strengths to increase their market share, adding value for clients through the cross-sell of EQ Digital services. The number of share plans in place rose 11% to 11,850 in 2017, from 10,720 in the previous year.

In their trading update published last week Equiniti state that they "continue to make progress with our strategy, have the resources, technology and specialists to respond to opportunities as they emerge, and see multiple drivers of growth for the future".

Despite the recent market drops and what could have been a peak in IPOs in 2018, I expect the diversity of Equiniti to provide a firm base for growth.

John Snowden is an experienced stockmarket commentator and investor.

Investment update — **Forterra** (EPIC:FORT)

Reviewed: 01/04/17 **Price then:** 209p **Recent price:** 217p
Prev. comment: 01/04/17 **Rev. by:** JS **ICB group/sector:** Construction & Materials

The shares fell through the gain-lock of 220p in November 2018. But the negatives are still outweighed by the positives for this business that has a significant market share. Winter weather delayed construction projects, but they will only be postponed. And on 1st November Forterra announced that following an overheating of the kiln at the Desford brick manufacturing facility, the kiln will have to be closed for 6 weeks for a full rebuild rather than a temporary repair ahead of the next shutdown, and that the cost of repair and loss of production is estimated to be between £2m and £3m so profits for the full year will be below previous expectations.

I am inclined to therefore revise my gain lock, and keep the shares in the portfolio rather than sell and buy again. The new stop loss is set at break even, in case any other market volatility should cause the price to drop.

Attitude: Positive

Contacts

We welcome your questions...
If you have an investment query you would like to see answered in the Q&A please contact the editor. We regret we are unable to answer you other than in print nor give advice over the phone.

Editorial

Write: Editor The IRS Report
Abbots Corner, The Avenue,
Bourne End. SL8 5RD

Tel: 0800 756 5437

Fax: 0844 736 5814

e-mail: editor@TheIRSReport.co.uk

Subscriptions

Phone: Sarah Newsome on 0800 756 5437

Fax: 0844 736 5814

e-mail: subscriptions@TheIRSReport.co.uk